# State of Tennessee Indebtedness Report

December 31, 2015





Justin P. Wilson, Comptroller



#### STATE OF TENNESSEE

Justin P. Wilson Comptroller

#### **COMPTROLLER OF THE TREASURY**

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

May 12, 2016

The Honorable Bill Haslam, Governor
The Honorable Ron Ramsey, Speaker of the Senate
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

#### Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at June 30, 2015 and at December 31, 2015. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Energy Efficient Schools Initiative (EESI) and the State Infrastructure Fund (SIF).

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson

Comproller of the Treasury

C: Senate Finance, Ways and Means Committee

The Honorable Randy McNally, Chair The Honorable Bo Watson, 1<sup>st</sup> Vice-Chair The Honorable Doug Overbey, 2<sup>nd</sup> Vice-Chair

House Finance, Ways and Means Committee The Honorable Charles Sargent, Chair The Honorable David Alexander, Vice-Chair The Honorable Curtis Johnson, Finance Subcommittee Chair

Fiscal Review Committee The Honorable Mark White, Chair The Honorable Bill Ketron, Vice-Chair Krista Lee, Director

Office of Legislative Budget Analysis Rick Nicholson, Senate Budget Analysis Director Cathy Higgins, House Budget Analysis Director

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## State of Tennessee Indebtedness Report (Unaudited)

Variance

	<u>a/o June 30, 2015</u> Number of		a/o December 31, 2015 Number of			Increa Number of	se (De	e (Decrease)	
_	loans/projects	De	ebt Outstanding	loans/projects	De	ebt Outstanding	loans/projects	De	bt Outstanding
Long-term General Obligation Debt									
General Obligation Bonds Outstanding	1,744	\$	1,772,015,000	1,810	\$	1,956,330,000	66	\$	184,315,000
General Obligation Commercial Paper									
Tax-Exempt	125	\$	171,823,000	102	\$	181,073,000	(23)	\$	9,250,000
Taxable	3		25,863,000	3		24,463,000			(1,400,000)
Total Commercial Paper Outstanding	128	\$	197,686,000	105	\$	205,536,000	(23)	\$	7,850,000
Tennessee Local Development Authority									
Bonds Issued and Outstanding	20	\$	4,610,000	20	\$	4,610,000	-	\$	-
Tennessee State School Bond Authority Higher Education Facilities Program									
Bonds Outstanding	202	\$	1,546,480,000	186	\$	1,520,380,000	(16)	\$	(26,100,000)
Revolving Credit Facility Outstanding:		·	,,,		•	,,,	( - /	•	( -,,,
Tax-Exempt	25	\$	51,443,643	33	\$	61,443,643	8	\$	10,000,000
Taxable	4		10,238,386	6		10,238,386	2		-
Total Revolving Credit Facility	29	\$	61,682,029	39	\$	71,682,029	10	\$	10,000,000
Qualified Zone Academy Bond Program									
Bonds Outstanding	16	\$	43,920,000	13	\$	32,590,000	3	\$	(11,330,000)
Qualified School Construction Bonds									
Series 2009	13	\$	177,000,000	13	\$	177,000,000	-	\$	-
Series 2010	15	\$	212,440,000	15	\$	212,440,000	-	\$	-
Tennessee Housing Development Agency									
Mortgage Loans/Principal Outstanding	18,785	\$	1,474,520,000	18,766	\$	1,502,510,000	(19)	\$	27,990,000
("NIBP") (2009 Bond Resolution)	4,656		474,450,000	4,306		436,855,000	(350)		(37,595,000)
Mortgage Loans / Principal Outstanding	23,441	\$	1,948,970,000	23,072	\$	1,939,365,000	(369)	\$	(9,605,000)
Total State Indebtedness:	a/o 6/30/2015	\$	5,964,803,029	a/o 12/31/2015	\$	6,119,933,029		\$	155,130,000

### **Authorized/Unissued Debt**

### (Unaudited)

									Variance
		a/o June 30, 2015		a/o December 31, 2015			<u>Increa</u>	ise (Decrease)	
General Obligation 1)		\$	2,087,645,140		\$	1,649,065,140		\$	(438,580,000)
Tennessee Local Developmen	nt Authority (TLDA)	\$	305,000,000 <sup>2)</sup>		\$	305,000,000	2)	\$	_
TLDA Capital Projects	,	\$	75,000,000		\$	75,000,000		\$	_
Tenessee Housing Developme	ent Agency (THDA)	\$	981,030,000 <sup>2)</sup>		\$	990,635,000	2)	\$	9,605,000
Tennessee State School Bond	• , ,	\$	418,561,393 <sup>3)</sup>		\$		3)	\$	150,062,576
Total Authorized/Unissued Debt		\$	3,867,236,533		\$	3,588,324,109		\$	(278,912,424)
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Fastuates									
Footnotes:									
1)	Authorized and Unissued as of 12/31/14	\$	1,595,785,204	A/U as of 06/30/15	\$	2,087,645,140		\$	491,859,936
,	New Bond Authorization 2014-15		521,400,000			-		\$	(521,400,000)
	Less: Canceled 2014/2015		(29,540,064)			-		\$	29,540,064
	Less: Canceled 2015/2016		-			(98,580,000)			
	Less: Bonds Issued 2015 Series A		<u>-</u>			(340,000,000)	•	\$	(340,000,000)
	Authorized and Unissued as of 6/30/15	\$	2,087,645,140	A/U as of 12/31/15	\$	1,649,065,140		\$	(438,580,000)
	TDOT Bond Authorization:	\$	728,800,000		\$	643,000,000		\$	(85,800,000)
	TDOT Bond Authorization - Bridges		146,100,000			146,100,000		\$	-
	Capital Projects Bond Authorization:		1,212,745,140			859,965,140		\$	(352,780,000)
		\$	2,087,645,140		\$	1,649,065,140		\$	(438,580,000)

<sup>\*</sup> Issuance of bond proceeds in the amount of \$286,275,000 par and \$53,725,000 premium

<sup>2)</sup> Amount indicated is the unissued remaining statutory debt limit.3) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

### **General Obligation Debt Information**

### **General Obligation Debt**

The State Funding Board debt management policy is located at: <a href="http://www.comptroller.tn.gov/sl/policy.asp">http://www.comptroller.tn.gov/sl/policy.asp</a>

- Bond principal matured in the amount of \$95,700,000
- The 2015 Series A bonds were issued in the par amount of \$286,275,000 and generated a premium in the amount of \$54,378,753
- The 2015 Series B Refunding bonds were issued in the amount of \$97,490,000 and generated a premium in the amount of \$14,121,515 to refund general obligation bonds totaling \$103,750,000
- The increase to commercial paper outstanding was comprised of new issuances totaling \$130,000,000 and repayments totaling \$122,150,000
- Bond authorization was canceled in the amount of \$98,580,000

### **Legislation Enacted in 2015**

The General Assembly passed legislation that demonstrated Tennessee's commitment to help the state and local governments to keep their financial houses in order.

### Public Chapter 426 – revises the group insurance plans provided by the state, local education agencies (LEAs), and local governments

Revises the percentage that the state pays for dependents in the group plan for state employees for future fiscal years and adds a provision to allow the state to deny coverage to the spouse of a state employee hired after July 1, 2015 if the spouse is eligible for similar group health insurance through his/her employer. Stipulates that any part-time or seasonal employee who works less than an average of 30 hours per week will not be eligible for the group plan. Eliminates the health benefit for retired state employees, retired local education employees, and retired state employees of the University of Tennessee and state community college system hired after July 1, 2015. Establishes a board of trustees to manage any defined contribution plan or related retirement investment vehicle established as a health benefit by the state, local education, or local government insurance committees. Delegates the day-to-day responsibilities for managing the investments to the state treasurer. Requires that the basic health plan and other plan options and the state premium support amounts comply with a written policy approved by the council on pensions and insurance before becoming effective. Also, requires the trustees discussed above to establish an investment trust or trusts for the purpose of pre-funding other post-employment benefits accrued by employees of the state, and to adopt, in writing, an investment policy authorizing how assets in the trusts may be invested.

#### PC 112 - Local governments required to establish internal controls

Requires that all county, municipal, and metropolitan governments establish internal controls to ensure compliance with applicable law, prevent waste, and ensure operations are properly recorded.

#### PC 170 - County Budgets

Allows counties that have not adopted a budget by July 1 of any year to continue to operate under the previous fiscal year's budget for the months of July and August, and under extraordinary circumstances, with the approval of the Comptroller's Office to continue for the month of September. Requires that all counties have a budget adopted by September 30.

PC 041 – Local Government Required to Close Books for Audit Two Months after fiscal year end

Requires local governments that are subject to comptroller audit and handle public funds to close their accounting records and make them available for audit no later than two months after the close of their fiscal year.

### Other Information on Outstanding Debt

### **Tennessee Local Development Authority (TLDA)**

The TLDA debt management policy is located at <a href="http://www.comptroller.tn.gov/sl/policy.asp">http://www.comptroller.tn.gov/sl/policy.asp</a>

### Tennessee State School Bond Authority (TSSBA)

The TSSBA debt management policy is located at http://www.comptroller.tn.gov/sl/policy.asp

#### **Higher Education Facilities Program**

• Bond principal in the amount of \$26,100,000 matured during this period.

#### **Qualified Zone Academy Bond Program (QZAB)**

- This program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997.
- Security for the QZABs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Education Program Facilities Bonds.
- On December 18, 2015, bonds outstanding was decreased by \$11,330,000 due to the maturity of the 2001 QZAB bonds.
- As of December 31, 2015, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$20,384,116.

#### **Qualified School Construction Bond Program (QSCB)**

- This program is a federal tax credit (2009)/federal subsidy (2010) program created under the American Recovery and Reinvestment Act (ARRA) of 2009.
- Security for the QSCBs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes, and there is no cross default to the Higher Education Program Facilities Bonds.
- As of December 31, 2015, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$118,995,231.

### Tennessee Housing Development Agency (THDA)

The THDA debt management policy is located at <a href="http://www.comptroller.tn.gov/sl/policy.asp">http://www.comptroller.tn.gov/sl/policy.asp</a>

- Bond principal outstanding decreased by \$ 9,605,000 during this time period.
  - New bonds were issued totaling \$ 175,000,000.
  - Bond principal matured in the amount of \$ 161,385,000, of which \$ 37,595,000 was part of the NIBP program.

### **Bond Ratings on Outstanding Debt**

### **BOND RATINGS**

BOND KATINGO	<u>Fitch</u>	Moody's	<u>S &amp; P</u>
State of Tennessee	AAA	Aaa	AA+
Tennessee Local Development Authority	AA	n/a *	AA+
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 **	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	AA+	Aa1 **	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 **	AA
THDA 1974 Resolution	n/a	Aa2	AA
THDA 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (NIBP)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

### \*\* Explanation of Moody's Investor Services ratings:

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

<sup>\*</sup> On September 18, 2015, Moody's Investors Service Inc. downgraded the Authority's bond rating from Aa3 to A2. On November 13, 2015, Moody's Investors Service Inc. withdrew the A2 rating.

### Annual Debt Service for State of Tennessee General Obligation Bonds

as of December 31, 2015

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
	I KIITOII AL	INTEREST	MEGOINED
FY2016*	\$ 152,825,000	\$ 75,311,295	\$ 228,136,295
FY2017	160,275,000	80,747,788	241,022,788
FY2018	151,580,000	73,567,639	225,147,639
FY2019	141,265,000	66,944,536	208,209,536
FY2020	138,280,000	60,773,431	199,053,431
FY2021	131,540,000	54,645,145	186,185,145
FY2022	131,790,000	48,583,920	180,373,920
FY2023	124,180,000	42,703,442	166,883,442
FY2024	124,665,000	37,597,904	162,262,904
FY2025	115,390,000	32,607,463	147,997,463
FY2026	115,270,000	27,825,601	143,095,601
FY2027	106,545,000	22,989,539	129,534,539
FY2028	101,975,000	18,546,315	120,521,315
FY2029	95,460,000	14,370,323	109,830,323
FY2030	70,605,000	10,545,806	81,150,806
FY 2031	59,410,000	7,660,746	67,070,746
FY 2032	50,080,000	5,044,030	55,124,030
FY 2033	26,865,000	3,303,125	30,168,125
FY 2034	19,860,000	2,205,000	22,065,000
FY 2035	19,860,000	1,212,000	21,072,000
FY 2036	14,310,000	357,750	14,667,750
	\$ 2,052,030,000	\$ 687,542,798	\$ 2,739,572,798

<sup>\*</sup> Includes amounts for the entire fiscal year 2016.

# Loan Programs Administered by the Office of State and Local Finance (Unaudited)

	<u>a/o June 30, 2015</u>			a/o Decen	31, 201 <u>5</u>	Variance <u>Increase (Decrease)</u>			
	Number of loans/projects	Loans Outstanding		Number of loans/projects	Loa	ns Outstanding	Number of loans/projects	Loans Outstanding	
State Revolving Fund Loan Program									
Clean Water (Sewerage) Principal Outstanding	180	\$	395,348,446	184	\$	421,401,494	4	\$	26,053,048
Drinking Water Principal Outstanding	92	\$	91,524,008	106	\$	101,773,195	14	\$	10,249,187
Energy Efficient Schools Initiative (EESI)	52	\$	49,252,794	52	\$	46,504,849	-	\$	(2,747,945)
State Infrastructure Fund (SIF)	1	\$	116,506	1	\$	117,459	-	\$	954

### **Loan Programs Information**

### **State Revolving Fund Loan Program**

The State administers the State Revolving Loan Funds Programs for the Local Governments. The programs currently have no outstanding indebtedness in the capital marketplace. The programs are funded by federal and state capitalization grants. Therefore, the dollar amount of loans managed for the State Revolving Loan Programs is not included in the Total State Indebtedness.

#### Clean Water State Revolving Fund (CWSRF)

During this period, the loan balance increased \$26,053,048. Four new loans were added to the
program. The dollar amount of loans outstanding increases as funds are drawn to pay project costs
and decreases as the loan principal is repaid.

#### **Drinking Water State Revolving Fund (DWSRF)**

During this period, the loan balance increased \$10,249,187. Thirteen new loans were added to the
program, and one loan increase was approved. The dollar amount of loans outstanding increases
as funds are drawn to pay project costs and decreases as the loan principal is repaid.

### **Energy Efficient Schools Initiative (EESI)**

The Energy Efficient Schools Initiative (EESI) was established by the Tennessee General Assembly in 2008 with \$90 million. Over \$87 million has been approved for projects to improve the energy efficiency in Tennessee's public K-12 schools. Purposes of the Energy Efficient Schools Council, also created by this legislation, include providing grants and loans for capital outlay projects and establish and support energy management programs. The enabling legislation also created a twelve member council to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From June 30, 2015, to December 31, 2015, the loan balance decrease was comprised of approximately \$3 million in loan repayments.
- During this period, two new loans were added to the program, and two loans were paid in full.

### **State Infrastructure Fund (SIF)**

The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

One disbursement was made from June 30, 2015 to December 31, 2015.

### **Board Membership**

### State Funding Board

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration

### **Tennessee Local Development Authority**

Governor Bill Haslam, Chairman
Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Mr. Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

### Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Dr. Joseph DiPietro, President, University of Tennessee
John G. Morgan, Chancellor, Tennessee Board of Regents (ended 1/31/2016)
David Gregory, Acting Chancellor, Tennessee Board of Regents (effective 2/1/2016)

## Bond Finance Committee Tennessee Housing Development Agency

Brian Bills, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration

### **ACKNOWLEDGEMENTS**

### Office of State and Local Finance

Sandi Thompson, Director Martha L. Brown Lori Barnard Kayla Shewcraft Carr, CPA Jacqueline Felland Donna Kaukas Cindy Liddell
Steve Osborne
Kathy Palmer
Ron Queen, CPA
Sheila Reed
Sharon Schmucker, CPA
Alicia Scott

### **Tennessee Housing Development Agency**

Trent Ridley, Chief Financial Officer Wayne Beard, Director of Finance